

## Management's Discussion and Analysis of Operating Results and Financial Situation

*The following analysis must be read in conjunction with the unaudited interim financial statements of Immunotec Inc. (the "Company") dated January 31, 2009 and the annual audited consolidated financial statements dated October 31, 2008.*

*This Management's Discussion and Analysis ("MD&A") has been prepared in accordance with the guidelines of National instrument 51-102. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The unaudited interim consolidated financial statements and related management's report have been reviewed by the Audit Committee and approved by the Board of Directors. All amounts are expressed in Canadian dollars unless otherwise indicated.*

### OVERVIEW

The Company is incorporated under the *Canada Business Corporations Act* and is engaged primarily in the development and marketing of natural health products, dietary supplements, food, vitamins and personal care products, some of which are manufactured on its behalf by third parties. The products are distributed and sold in Canada and the United States through a network marketing system and in other countries under exclusive distributorship agreements.

The Company operates out of a 37,000 square foot facility located in Vaudreuil-Dorion, Quebec, Canada, as well as a manufacturing facility in Blainville, Quebec, Canada and a distribution centre located in Swanton, Vermont, USA.

Upon commencing its operations, the Company made a strategic decision to market its products through a direct-selling/network marketing system, being a system in which distributors sell products directly to customers and sponsor other individuals as distributors. Distributors derive compensation both from the direct sales of products and from sales volume generated by sponsored distributors. Network marketing involves person-to-person communication and training with respect to the products and the system. The Company believes this feature makes network marketing a more effective means of marketing its products than in-store retail sales.

As at January 31, 2009, the Company's product line was comprised of 15 different products which are distributed and sold by independent distributors through a network marketing system of over 15,000 active distributors in Canada and the United States. We consider an active distributor, a distributor who has purchased our products within the last twelve months. Our products are also sold internationally under exclusive distribution agreements.

## HIGHLIGHTS

In overview, the sales trend in the first quarter ending January 31, 2009 continues to be positive. The Company, realized net sales of \$10,103,598 compared to \$8,644,415 in 2008, an increase of \$1,459,183 or 16.9%, the strongest performance in the last 4 years. By individual markets and in their respective local currencies, net sales in Canada posted an increase of \$381,019 or 8.3 %, the U.S. market posted an increase of \$354,897 or 10.7 % and our export market in other countries realized a decrease of \$254,239 or 32.4 %.

For the first quarter 2009, net sales by final destination were as follows; 49.0% in Canada and 44.6% in the United States, with the remainder 6.4%, through export to other International markets.

The operating results of the Company are a direct result of certain key performance indicators. These indicators not only affect current performance but are indicative of future performance. New distributors are independent contractors that purchase a distributor kit and agree to market the products of the Company to their circle of acquaintances. New customers are those who agree to purchase the products of the Company on a regular basis through an auto ship program called ImmunoDirect. For the first quarter 2009, the number of new distributors recruited into the business opportunity increased by 127% and the number of new customers remained essentially flat with the prior year. The increase in the number of new distributors reflects the emphasis on acquiring distributors versus customers as their average monthly purchase pattern is approximately 50% greater than a customer.

## FORWARD LOOKING STATEMENTS

Some statements included in this management report contain forward-looking information about the Company's future financial positions, operating results and sales. They may be based on market expectations, management opinions and assumptions. Such information involves significant risks and uncertainties that are difficult to predict and rely on assumptions that may prove inaccurate. Actual results and events may differ materially from those forecasted in the forward-looking statements in this analysis.

The Company, unless required under securities regulations, declines any intention or obligation to update or revise the forward-looking statements as a result of new information, future events or other developments. More specifically, the forward-looking statements do not reflect the impact of mergers, acquisitions, business combinations or disposals of businesses that could be announced or completed after their formulation.

## DESCRIPTION OF THE BUSINESS

### **Principal Products and Services**

Most of the Company's products are considered to be natural health products in Canada and dietary supplements in the United States. The Company develops and markets the following products:

#### ***Immunocal®***

The Company's unique flagship product, Immunocal, is based on solid and ongoing research as well as documented efficacy in maintaining a strong immune system. This product represents over 43% of the Company's sales for the quarter ended January 31, 2009. Immunocal (NPN: 80004370) is recognized by Health Canada's Natural Product Directorate as a 'natural source of the glutathione precursor cysteine for the maintenance of a strong immune system'.

#### ***Immunocal Platinum®***

Immunocal Platinum is an enhanced form of Immunocal, targeted at the 50+ market, to support good health and well-being, buffer the effects of aging as well as for the maintenance of a strong immune system. Immunocal Platinum represented approximately 28.1% of the Company's sales for the quarter ended January 31, 2009.

#### ***Other Products***

Other products sold include Concentrated Tart Montmorency Cherry Juice, Xtra Sharp®, Magistral®, PNT-200®, Naturally Sourced Calcium, Vitamin/Mineral Supplement, Omega-3, Skin Perfecting Cream, Thermal Action, Toothpaste and the Immunotec F.I.T.T. Meal Replacement system.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables summarize selected financial information from the Statement of Earnings and the Balance Sheets regarding the operations of the Company.

	<b>Q1</b> <b>January 31, 2009</b> <b>(\$)</b> <b>unaudited</b>	<b>Q1</b> <b>January 31, 2008</b> <b>(\$)</b> <b>unaudited</b>
Net Sales	10,103,598	8,644,415
Cost of Sales	1,773,528	1,639,607
Sales Incentives	4,489,928	3,542,210
Selling, General and Administrative	4,078,772	2,897,508
(Loss) Earnings before income taxes	(238,630)	565,090
Net (Loss) Earnings	(201,205)	311,061
Net (Loss) Earnings per share:		
Basic	(0.003)	0.004
Diluted	(0.003)	0.004
Weighted average number of common shares outstanding:		
Basic	69,994,300	69,994,300
Diluted	69,994,300	69,994,300
<hr/>		
	<b>As at</b> <b>January 31, 2009</b> <b>(\$)</b> <b>unaudited</b>	<b>As at</b> <b>October 31, 2008</b> <b>(\$)</b> <b>audited</b>
<b><u>ASSETS:</u></b>		
Cash and equivalents	5,693,766	6,138,454
Accounts receivable	656,550	812,914
Other current Assets	5,998,319	4,683,255
Total current Assets	<u>12,348,635</u>	<u>11,634,623</u>
Other Assets	<u>10,990,289</u>	<u>11,028,777</u>
<b>TOTAL ASSETS</b>	<b><u>23,338,924</u></b>	<b><u>22,663,400</u></b>
<b><u>LIABILITIES:</u></b>		
Current Liabilities	5,306,600	4,552,187
<b>TOTAL LIABILITIES</b>	<b><u>5,306,600</u></b>	<b><u>4,552,187</u></b>
<b><u>SHAREHOLDERS' EQUITY:</u></b>		
Share Capital	3,465,548	3,465,548
Other Equity-Stock Options	1,537,201	1,414,885
Contributed surplus	11,332,143	11,332,143
Retained Earnings	<u>1,697,432</u>	<u>1,898,637</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>18,032,324</u></b>	<b><u>18,111,213</u></b>

## Summary of the last eight quarters of operations

The following table summarizes selected financial information regarding the operations of the Company for the last eight quarters.

	Q1 January 31, 2009 (\$)	Q4 October 31, 2008 (\$)	Q3 July 31, 2008 (\$)	Q2 April 30, 2008 (\$)	Q1 January 31, 2008 (\$)	Q4 October 31, 2007 (\$)	Q3 July 31, 2007 (\$)	Q2 April 30, 2007 (\$)
Net Sales	10,103,598	9,254,877	8,942,007	9,180,346	8,644,415	8,511,677	8,526,260	8,835,156
Cost of Sales	1,773,528	1,582,155	1,573,609	1,727,304	1,639,607	1,717,865	1,585,668	1,663,872
Sales Incentives	4,489,928	3,762,677	3,697,379	3,731,886	3,542,210	3,548,533	3,538,010	3,628,354
Selling, General and Administrative	4,078,772	4,063,566	3,173,318	3,028,620	2,897,508	3,898,285	2,700,584	2,895,287
(Loss) Earnings before income taxes	(238,630)	(153,521)	497,701	692,536	565,090	(653,006)	701,998	647,643
(Loss) Net Earnings	(201,205)	(157,477)	354,168	434,049	311,061	(612,794)	566,751	425,065
Net (Loss) Earnings per share:								
Basic	(0.003)	(0.002)	0.005	0.006	0.004	(0.009)	0.008	0.006
Diluted	(0.003)	(0.002)	0.005	0.006	0.004	(0.009)	0.008	0.006
Weighted average number of common shares outstanding:								
Basic	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300
Diluted	69,994,300	70,034,549	69,994,805	69,994,300	69,994,300	69,994,300	69,994,300	69,994,300

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY

The following analysis of the financial situation and the results of operations of the Company should be read in conjunction with the information presented in its interim unaudited consolidated financial statements and their related notes for the three-month periods ended January 31, 2009 and 2008.

### Net sales

During the first quarter ending January 31, 2009, the Company realized net sales of \$10,103,598 compared to \$8,644,415 in 2008, an increase of \$1,459,183 or 16.9%. This mainly reflects increases in volume in Canada of \$381,019 or 8.3%, in the United States \$1,207,110 or 36.6% and a decrease of (\$128,946) or (16.5%) to other countries. In US dollars, network sales in the United States were \$3,570,342 compared to \$3,190,488 in 2008, an increase of \$379,854 or 11.9%.

### Cost of sales

For the first quarter ending January 31, 2009, cost of sales as a percentage of net sales was 17.6% compared to 19.0% for the corresponding period of 2008. The decrease in the cost of sales percentage to net sales resulted from the sales mix between the network business and international sales.

## **Operating expenses**

### ***Sales incentives***

Sales incentives are the largest operating expenses of the Company and depend directly on the sales volume of each independent distributor. Sales incentives include both commissions related to commissionable net sales and various incentives which can be earned by independent distributors.

Sales incentives were 44.4% of net sales for the three-month period ended January 31, 2009 compared to 41.0% of net sales for the corresponding period of 2008. The increase in sales incentives resulted from additional monthly promotions used in the recruiting of new independent distributors which is a key strategy in realizing the Company's sales objectives.

### ***Selling, general and administrative***

Selling, general and administrative expenses consist of marketing and selling related expenses; research and development, including costs of clinical studies; administrative expenses, professional fees, patents and trademarks, consulting fees and other office expenses; financial expenses, including credit card processing fees and the amortization of property, equipment, patents and trademarks. These expenses also include compensation, benefits for employees and other related employment expenses for all operating departments.

For the three-month period ended January 31, 2009, selling, general and administrative expenses were \$4,078,772 compared to \$2,897,508 for the corresponding period of 2008, representing an increase of \$1,181,264 or 40.8%. The increase is largely attributable to the increase in salaries and related expenses of \$506,687 resulting from the hiring of new executives as well as sales and marketing personnel, the provision for the spring incentive trip of \$410,577 and the increase in credit card fees due to the increase in sales.

### **Income taxes**

For the three-month period ended January 31, 2009 the Company recorded a net recovery of income tax expense of \$37,425 which represents 15.7% of the loss before income taxes compared to an expense of \$254,029 which represents an effective tax rate of 45% for the corresponding period in 2008.

### **Net (loss) earnings**

Net loss was \$201,205 ((\$0.003) per share) for the first quarter ending January 31, 2009 compared to net earnings of \$311,061 (\$0.004 per share) for the comparable period in 2008.

### **Financial situation and liquidity**

#### ***Cash flow from operating activities***

The Company realized a cash decrease from its operating activities of \$268,937 for the three-month period ended January 31, 2009 compared to an increase of \$1,160,756 for the comparable period in 2008. The lower net earnings and the higher inventory levels have negatively impacted the cash flow generated by operations.

#### ***Cash flow from investing activities***

The decrease in investing activities for the three-month period ended January 31, 2009 resulted in a net decrease of cash flow of \$175,751 compared to a net decrease of cash flow of \$176,253 for the corresponding period of 2008.

### ***Cash flow from financing activities***

For the three-month period ended January 31, 2009 and the corresponding period of 2008, the Company had no utilization of cash related to financing activities.

### ***Cash situation***

As at January 31, 2009, the Company had a cash position of \$5,693,766 compared to \$4,859,061 as at January 31, 2008. The Company believes that cash requirements in the ordinary course of business for next year can be met with its available cash, cash generated from its operating activities and the reduction of income tax payments caused by the realization of prior years income tax losses. If required, the Company has access to operating credit facilities of \$2,000,000 at its bank's prime rate plus 1/2 %. The credit facilities have not been drawn upon to date.

### ***Working capital***

As at January 31, 2009, the Company shows a working capital of \$7,042,035 for a ratio of 2.33 compared to a working capital of \$5,296,447 with a ratio of 2.38 as at January 31, 2008.

### ***Capital management***

In the context of managing its capital, the objective of the Company is to maintain a capital structure that allows multiple options to finance its development and growth along with providing the shareholders with an acceptable return. The cash and shareholders' equity define the capital structure of the Company.

The Company's strategy consists of maintaining a flexible capital structure in order to respond to the economic conditions and adjusting accordingly. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issue, share repurchase, grant of stock options, the payment of dividends, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company periodically monitors its capital structure.

The Company is not subject to externally imposed capital requirements. The Company's strategy with respect to capital management remains unchanged during the period ended January 31, 2009.

## **DEVELOPMENT IN ACCOUNTING STANDARDS**

### **Changes to accounting policies**

On November 1, 2008, the Company adopted the new recommendation of Section 1400, “General Standards of Financial Statement Presentation” to include requirements to assess and disclose an entity’s ability to continue as a going concern. The recommendation had no effect on the Company’s consolidated financial statements.

### **Future accounting policies**

In January 2009, the CICA issued the following new Handbook sections:

- i) Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), “Business Combinations”. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.
  
- ii) Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, which together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), “Consolidated and Separate Financial Statements”. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

### **Transition to international financial reporting standards (IFRS)**

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles for accountable public companies will be replaced with IFRS. For our company, IFRS will be effective for interim and annual periods commencing November 1, 2011, including the preparation of comparative figures.

The Company commenced assessing the impact of the significant accounting differences between IFRS and Canadian GAAP, including analyzing the impact to business processes, systems and internal control over financial reporting.

Further updates on implementation progress and potential reporting impact from the adoption of IFRS will be provided during the implementation period.

## FINANCIAL INSTRUMENTS

### Classification of the financial instruments

Cash and cash equivalents are classified as “financial assets held for trading”. Accordingly, they are carried at fair value, with any gains or losses arising from the revaluation at each period-end being included in consolidated earnings.

Accounts receivable are classified as “loans and receivables”. Subsequent to their initial measurement at fair value, accounts receivable are measured at amortized cost using the effective interest rate method. Given the composition of the Company’s accounts receivable, the amortized cost generally approximates fair value because of their short terms to maturity.

The investment in common shares of a private company are classified as “available for sale”. Such shares were initially recorded at their fair value and subsequent are carried at cost. Available-for-sale financial assets are, however, subject to assessment for impairment and unrealized losses are recorded in the consolidated statement of earnings.

Accounts payable and accrued liabilities and customer deposits are classified as “other financial liabilities”. Subsequent to their measurement at fair value, these financial liabilities are measured at amortized cost using the effective interest rate method.

### Fair value

The Company has determined the fair value of its financial instruments based on estimates and assumptions.

The fair value of current financial assets and liabilities, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and customer deposits, is comparable to their carrying values due to their relatively short terms to maturity.

The fair value of the investment in a private company was not reliably estimable as at January 31, 2009 since the investment relates to a private bio-based technology company in the development stage. The investee is committed to buy back, in May 2010, the shares owned by the Company at the higher of the fair value of the shares or US\$786,350.

### Credit risk

Financial instruments which potentially subject the Company to credit risk include cash and cash equivalents and accounts receivable, with respect to which management believes there was no significant concentration of credit risk as at January 31, 2009. The Company deals only with highly rated financial institutions and continually monitors its clients’ credit and establishes its provision for doubtful accounts based on the credit risk applicable to each client.

## **Interest rate risk**

The Company is exposed to interest rate risk on its cash and cash equivalents and does not currently hold any financial instrument to mitigate this risk. Cash balances bear interest at floating rates, certificates of deposit and Treasury bills bear interest at a fixed rate. Management does not believe that the impact of the interest rate fluctuations on the current level of cash and cash equivalents will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net earnings and comprehensive income.

## **Currency risk**

The Company is exposed to currency risks as transactions with customers outside Canada are predominantly denominated in U.S. dollars. These risks are partially offset by purchases and operating expenses incurred in U.S. dollars. As at January 31, 2009, the balances denominated in U.S. dollars are \$809,891 (2008 – \$2,757,386) for cash and cash equivalents, \$373,425 (2008 – \$491,993) for accounts receivable and \$1,424,677 (2008 – \$1,020,629) for accounts payable and accrued liabilities.

## **LEGAL PROCEEDINGS OF THE COMPANY**

In the normal course of business, the Company is presently involved in legal proceedings with a consulting firm. We believe this current claim is ill-founded in fact and in law and the resolution thereof will not have a material effect on our financial situation.

## **FUTURE DEVELOPMENTS**

The Company has for many years exported products internationally under exclusive distribution agreements based on geographic territories. In the year ended October 31, 2008, distribution agreements were entered into with companies in Malaysia, Ecuador and Poland. Going forward, the Company has made a strategic decision to expand internationally using the same seamless network marketing model successfully employed in North America. As a result of this decision, it is the Company's intent in the second quarter to commence operations in the United Kingdom, Republic of Ireland and South Korea through wholly owned subsidiaries.

In support of this more rapid expansion plan, the Company will be expanding its manufacturing capability at its production facility in Blainville, Quebec, adding packaging capability for its flagship product, Immunocal.

Immunotec benefits from a solid balance sheet, skilled and motivated employees, well-established suppliers, repeat customers and a dedicated network of distributors. Since last year, the management implemented new measures in sales and marketing initiatives and it believes that these measures will help increase sales during the present year and the following years.

Management is of the opinion that its investment in current research in such areas as cancer cachexia, aging and aging-related conditions will enable Immunotec to produce and bring to market more value-added products thereby continuing to differentiate its products from competing products. Product development is on-going, based on recommendations from Immunotec's Product Development Committee, allowing the Company to increase its product lines within the health and wellness market.

## DESCRIPTION OF SECURITIES

### *Capital Stock*

The following description of the common and preferred shares of the Company is a brief summary of their material attributes and characteristics.

#### **a) Authorized – in unlimited number**

*Common shares:* Voting, participating, with no par value and with dividend rights at the discretion of the Board of Directors.

*First preferred shares and Second preferred shares:* The first and second preferred shares may be issued in one or more series. The Board of Directors is authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached thereto.

#### **b) Issued**

As at January 31, 2009, there are 70,026,558 common shares including 32,258 common shares held by the Company for sale.

### *Stock option plan*

As at January 31, 2009, the Company had 2,712,500 options outstanding. Each option entitles the holder to acquire one common share of the Company at the following exercise price. 1,682,500 options at \$1.13; 700,000 options at \$0.66; 30,000 options at \$0.80 and 300,000 options at \$0.56.

Each option entitles the holder to acquire one common share of the Company at the exercise price specified when granted. Options granted vest over a three year period for directors, officers and employees commencing one year following the date of grant, and vest over a one year period for the distributor. The options expire five years after the grant date.

## ONGOING INFORMATION AND CONTROLS RELATED TO THE COMMUNICATION OF INFORMATION

### **Disclosure controls and procedures**

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, the related consolidated financial statements and its interim filings are properly recorded, processed, summarized and reported to its Audit Committee and the Board of Directors.

### **Internal controls over financial reporting**

The Company, an Issuer on the TSX Venture Exchange, the CEO and the CFO are no longer required to certify that they have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting.

Instead, the Company files a Certification of Interim Filings – Venture Issuer Basic Certificate which certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the interim filings.

## **Additional Information**

The Company files its consolidated financial statements, its management and discussion analysis report, its press releases and such other required documents on the SEDAR database at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.immunotec.com](http://www.immunotec.com). The common shares of the Company are listed on the TSX Venture Exchange under the ticker symbol IMM.

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